

ANNUAL FINANCIAL REPORT OF CALIFORNIA K-12 SCHOOLS

Report to the Superintendent of Public Instruction

July 1, 2000, through June 30, 2001



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California State Controller

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Executive Summary

The State Controller has broad authority to oversee state and federal funding of California's public schools from kindergarten through the 12th grade (K-12). The State Controller's goal is to promote greater fiscal accountability by local school districts.

This oversight responsibility includes reviewing annual school district audit reports, maintaining a database with financial and statistical data on school district audit reports, reviewing and certifying the audit reports submitted by independent auditors, tracking financially troubled school districts identified by the interim reporting process, providing guidance and assistance to independent auditors through the State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*, and conducting financial and program audits at various school districts.

This year's report contains the following key findings:

- Fiscal year (FY) 1999-2000 marked the ninth consecutive year that California's school districts as a whole did not spend more money than they received — an indication that districts are maintaining reserves and spending within their means.
- One school district requested an emergency loan from the State during FY 2000-01. The three school districts with outstanding emergency loans are current on their repayment schedules.
- Three districts had very low fund reserves (1% or less of their general fund expenditures) in FY 1999-2000, compared to five districts in the previous year.
- The number of districts engaged in multi-year deficit spending increased slightly during FY 1999-2000. Compared to 104 districts in the prior year, 112 districts in FY 1999-2000 engaged in multi-year deficit spending — a 7.7% increase. Although some school districts may have legitimate needs to engage in multi-year deficit spending (such as for building projects), this practice is often an indication that a district is facing financial difficulty.
- Long-term borrowing decreased by \$750 million during FY 1999-2000 to a total of \$2.36 billion, compared to \$3.11 billion in the prior year — a 24% decline.
- The number of districts filing negative or qualified certifications relating to their ability to meet their financial obligations for the current and subsequent two fiscal years increased — from 19 in FY 1999-2000 to 22 in FY 2000-01. Eighteen school districts filed qualified interim financial reports and four school districts filed a negative interim financial report in the second reporting period of FY 2000-01, indicating that they may not meet their current and future financial obligations.

- There was a significant decrease from the prior year in the number of state and federal compliance findings in FY 1999-2000. Approximately 43% of the compliance findings are related to deficiencies in average daily attendance accounting. Average daily attendance (ADA) is the primary factor in determining the amount of funding a school district receives from the State.
- The school districts' annual audit reports disclosed 118 audit findings for the 886 elementary school districts participating in the class-size reduction program. There were also 83 audit findings for the 987 K-12 school districts and 58 county offices of education that received state instructional materials funds.

Most of the information used to prepare this report is compiled from annual audit reports prepared for individual school districts by independent certified public accountants for FY 1999-2000. Additional data came from interim financial report certifications submitted by school districts during FY 2000-01 and from audits conducted by the State Controller's Office.

Introduction

The oversight role State Controller’s Office in the K-12 fiscal process is administered by its Division of Audits. Oversight activities focus primarily on three areas: financial indicators, program compliance, and quality control.

The State Controller’s Office also has responsibilities relating to the financial oversight of school districts (including county superintendents of schools), in accordance with *Education Code* Section 14500. These responsibilities include:

- Publishing an annual audit guide,¹ which prescribes financial statements and other information that should be included in each school district’s audit report. This publication provides guidance to the independent auditors conducting school district audits.
- Reviewing each school district’s audit report submitted to the State and performing the associated follow-up actions, including compliance audits.²
- Tracking notifications from the school districts that identify substantial fiscal problems at interim reporting periods.
- Conducting selected school districts’ annual financial and compliance audits as a condition of the districts’ receiving emergency state apportionments.
- Ensuring that satisfactory arrangements for an annual audit have been made for each school district.
- Compiling pertinent data and reporting annually to the California State Legislature and the California Department of Education.

¹ The *Standards and Procedures for Audits of California K-12 Local Educational Agencies* (K-12 Audit Guide) is published by the State Controller’s Office. The *Education Code* states that the Controller, in consultation with the California Department of Education, the California Department of Finance, a representative of the county offices of education, and representatives of the California Society of Certified Public Accountants, shall prescribe the statements and other information to be included in the audit reports filed with the State and shall develop an audit guide to carry out the purposes of this chapter. Prior to the issuance of the audit guide, the Controller shall submit a copy of the audit guide to the Department of Finance for review to ensure that all compliance requirements are properly included.

² Compliance audits are conducted to determine whether categorical state and federal program funds are expended in accordance with the applicable program laws and regulations. These program funds (restricted revenues) comprise, on average, approximately 25% of a school district’s total funds.

Financial Indicators

Overview

Assembly Bill 1200, enacted in 1991 (Chapter 1213), put school district finances under the control of county offices of education and the California Department of Education. The law protects the public's interest in education by giving county offices of education specific responsibility for fiscal oversight of districts within their jurisdictions.

Key financial indicators representing the financial health of school districts are presented in this chapter. Most of the indicators use data from annual audit reports prepared by independent certified public accountants (CPAs) for FY 1999-2000. State law allows school districts approximately six months after the end of a fiscal year to submit an independent audit report to the State Controller's Office and the California Department of Education. Additional data comes from interim financial report certifications submitted by school districts during FY 2000-01 and from audits conducted by the State Controller's Office. Each section of the report specifies the fiscal year for which the data was obtained.

Interim Reporting

School districts in California are required to file interim reports certifying their financial health to the governing board of the district and county office of education. These interim reports must be completed twice a year by every school district (to cover the periods of July 1 through October 31, and November 1 through January 31), and must be reviewed by the appropriate county superintendent of schools. The interim reports contain financial and program information on standardized forms as prescribed by the State Superintendent of Public Instruction.

One of the following three certifications must be designated by the school district or county office of education when certifying the district's fiscal stability on the interim report.

Positive: A school district or county office of education that **will** meet its financial obligations for the **current fiscal year and subsequent two fiscal years**.

Qualified: A school district or county office of education that **may not** meet its financial obligations for the **current fiscal year and subsequent two fiscal years**.

Negative: A school district or county office of education that **will not be able to** meet its financial obligations for the **current fiscal year and subsequent two fiscal years**.

School districts that file qualified or negative interim reports work with their county superintendent to implement corrective action. Copies of the qualified or negative certifications are forwarded to the State Controller's Office and the State Superintendent of Public Instruction.

***More districts
filed qualified
or negative
certifications***

During FY 2000-01, 22 of the 987 school districts and 58 county offices of education in the State filed a qualified certification, and two districts filed a negative certification for the first period interim report. Of the 24 districts, 12 filed a second period qualified or negative interim report; therefore, 12 districts were able to take corrective action. However, an additional 10 districts filed qualified second period interim reports, for a total of 22 districts filing qualified or negative certification for the second period interim report (Table 1). Thus, 34 districts reported qualified or negative classifications in at least one of the two periods (Appendix A). Seven school districts remained on the list from the prior year. School districts filing qualified or negative interim reports for two or more years are monitored closely by the State Controller's Office through continuous contact with the California Department of Education.

The most common causes of fiscal problems cited in qualified or negative certifications were the following:

- Deficit spending
- Payroll/benefit problems
- Inadequate reserves
- Declining enrollment
- Utility costs

Table 1

SECOND PERIOD INTERIM REPORTING HISTORY				
	1997-98	1998-99	1999-2000	2000-01 *
Positive	1,049	1,037	1,027	1,023
Qualified	7	14	16	18
Negative	1	1	3	4
Totals	1,057	1,052	1,046	1,045
* Additional information regarding districts that filed qualified or negative interim reports during FY 2000-01 is provided in Appendices A and B.				

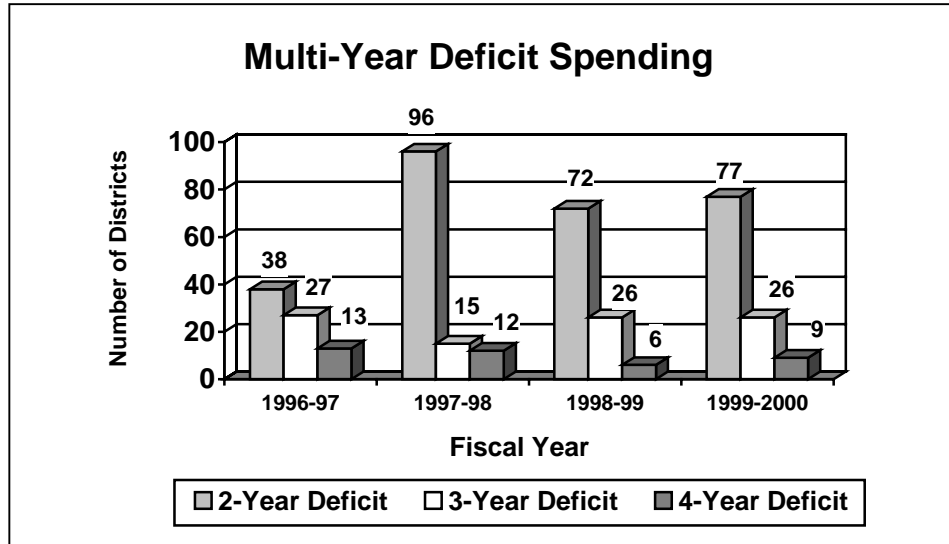
**Deficit
Spending**

During FY 1999-2000, single-year deficit spending increased from 210 districts to 259 districts in the prior fiscal year. Deficit spending patterns are closely monitored by the county offices of education and the California Department of Education to determine whether the districts are facing serious financial problems.

During FY 1999-2000, the number of districts relying on multi-year deficit spending increased slightly (Table 2). The biggest increase was for two-year deficit spending (5 districts, or 9%). Districts relying on four-year deficit spending increased to 9 from 6 in the prior year.

School district deficit spending increased slightly

Table 2



Emergency Apportionments

When the governing board of a school district determines that the district's revenues are not sufficient to meet its current-year obligations, it may request an emergency apportionment through the State Superintendent of Public Instruction. As a condition of acceptance of the loan, the Superintendent will appoint a trustee to monitor and review the operation of the district. An insolvent district also may request and receive an emergency apportionment. It, too, will be assigned a trustee; the trustee will help the district to develop a five-year recovery plan.

During FY 2000-01, one district requested an emergency loan in the amount of \$2,300,000.

Emergency loan repayments current

During the past 19 years, the State has granted more than \$70 million in emergency loans to school districts. Currently, three districts have outstanding loans (Table 3). All three districts — West Contra Costa, Coachella Valley, and Compton Unified school districts — are currently meeting their repayment schedules. Collectively, they account for 78% of the emergency loans (\$55.7 million) issued by the State within the last 11 years.

Table 3

DISTRICTS WITH OUTSTANDING LOANS				
Fiscal Year	School District	Amount of Loan	Outstanding Balance	Final Repayment Date
1990-91	West Contra Costa Unified	\$28.5 million	\$20.0 million	February 1, 2018
1992-93	Coachella Valley Unified	\$7.3 million	\$.9 million	December 31, 2001
1993-94	Compton Unified	\$19.9 million	\$ 3.6 million	June 30, 2001

General Fund Revenues and Expenditures

FY 1999-2000 marked the ninth consecutive year in which total school district general fund revenues exceeded expenditures (Table 4). The number of districts able to accomplish this in FY 1992-93 was 757 (71%); in FY 1993-94, 636 (60%); in FY 1994-95, 504 (48%); in FY 1995-96, 803 (76%); in FY 1996-97, 724 (68%); in FY 1997-98, 685 (65%); in FY 1998-99, 732 (70%); and in FY 1999-2000, 674 (64%).

As school districts continue to spend less than they receive, they are able to increase their total fund balance, or surplus. The cumulative surplus for California school districts totaled \$4.278 billion at the end of FY 1999-2000. That amount consisted of an increase of \$1.103 billion in total revenues over expenditures at the end of FY 1999-2000. The surplus as of June 30, 2000, increased a net \$213 million over June 30, 1999, after adjustments for other sources and uses, such as expenditure reductions, planned reductions, and unrealized revenues. As part of the total fund balance, the districts are to maintain reserves as a defense against economic uncertainties. The California Department of Education issues guidelines regarding the amount of reserve each district should maintain, based on its total average daily attendance.

Table 4

SCHOOL DISTRICT GENERAL FUND REVENUES AND EXPENDITURES (in billions)								
	Fiscal Years							
	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000
Revenues	\$23.507	\$24.531	\$24.955	\$26.746	\$29.778	\$32.893	\$35.715	\$38.793
Expenditures	22.917	23.865	24.729	26.026	29.040	32.017	34.675	37.690
Surplus	\$.590	\$.666	\$.226	\$.720	\$.738	\$.876	\$ 1.040	\$ 1.103

General Fund Balances

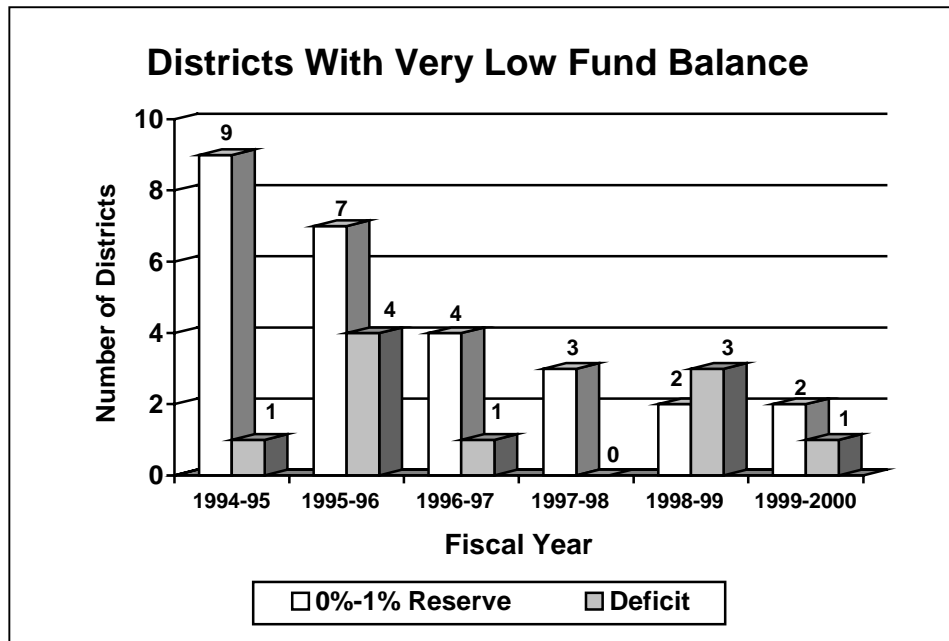
Number of districts with very low reserves decreased slightly

School districts report to county offices of education on projected general fund balances and reserve levels for the current period and two subsequent years in their interim reports. The primary purpose of this reporting is to identify potential deficit spending early in the process so the trend can be reversed.

The number of school districts with low fund balance reserves or deficit balances decreased slightly. At the end of FY 1999-2000, 3 of 987 school districts and 58 county offices of education had low fund balance reserves (1% or less of general fund expenditures) (Table 5).

Only two districts had very low fund balance reserves and one district had a negative fund balance. This is a continuing improvement over the last six years in the number of districts with very low reserves, from the high of eleven in FY 1995-96 to five in FY 1999-2000.

Table 5



Long-Term Borrowing

School districts' long-term borrowing decreased significantly

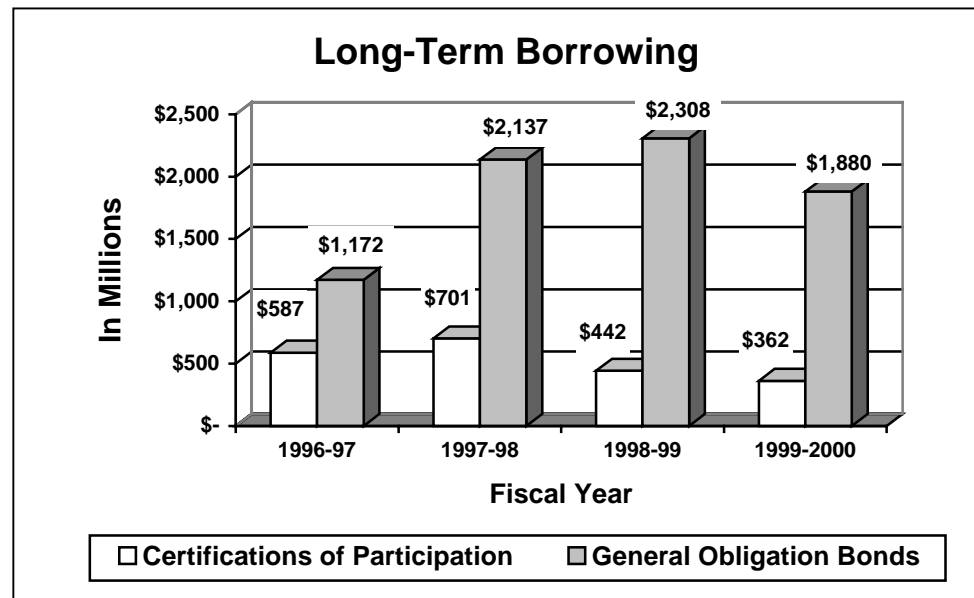
Generally, long-term debt is issued by districts to fund the purchase, construction, or lease of buildings and equipment; to refinance existing debt; or to buy land for future use. In the past, it was not uncommon for financially troubled districts to issue long-term debt in order to finance current operations.

During FY 1999-2000, school districts issued \$2.36 billion in long-term debt, a decrease of \$750 million over the prior year (24%). Long-term debt financing included:

- **Certificates of Participation (\$362 million, or 15%)** — A financing technique that provides long-term financing through leasing of school facilities, such as buildings, with an option to purchase or a conditional sales agreement.
- **General Obligation Bonds (\$1.880 billion, or 79%)** — Bonds secured by the full faith and credit of the district. These long-term obligations generally are issued at more favorable rates than other types of debt because of their preferred status — that is, they are secured by the taxing authority of the district.
- **Limited Tax Obligation Bonds Instruments and Other Debt (\$123 million, or 6%)** — A financing technique that provides long-term financing of capital projects. The bonds are repaid from incremental taxes on property in a redevelopment area.

School districts issued \$2.24 billion in certificates of participation and general obligation bonds during FY 1999-2000, a decrease of \$508 million (18%) from the prior year's \$2.75 billion (Table 6).

Table 6



Financing through certificates of participation decreased by \$80 million and financing through general obligation bonds decreased by \$428 million over the prior year. The certificates of participation were issued by 53 school districts during FY 1999-2000.

There is a continuing trend for districts to make greater use of general obligation bonds than other types of long-term debt. Certificates of participation accounted for 15% of long-term borrowing in FY 1999-2000 — a 1% increase over the previous year. In comparison, general obligation bonds accounted for 79% of long-term borrowing in FY 1999-2000 — an increase of 5% over FY 1998-99.

Lottery Revenues

The allocation of lottery revenues to K-12 school districts is based on a percentage of total lottery sales for the year. Under state law, a minimum of 34% of lottery sales must be distributed to school districts and community colleges. The division of this 34% between K-12 school districts and junior colleges fluctuates annually.

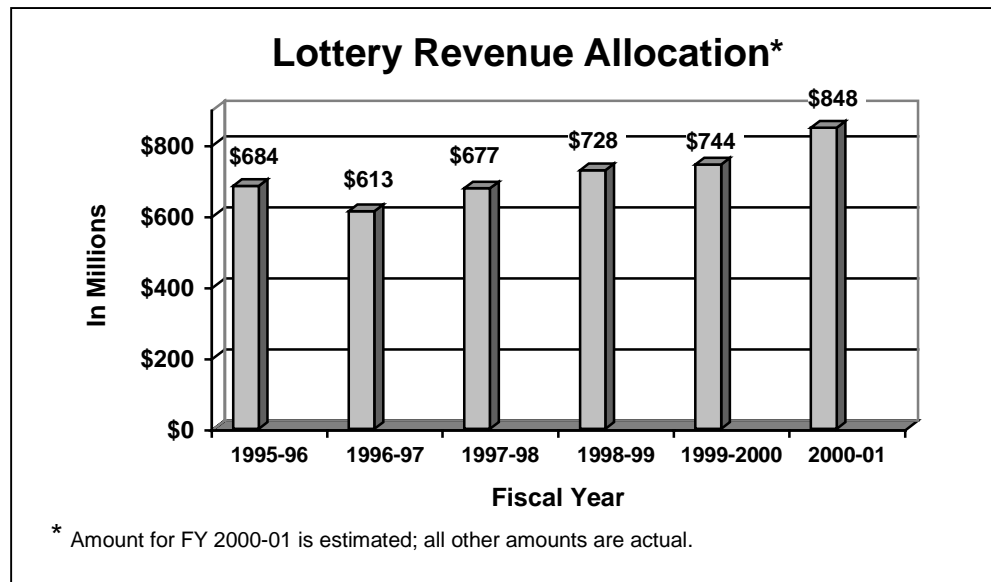
Lottery revenues increased slightly

The amount is distributed to each district based on its K-12 average daily attendance. The data regarding sales and allocations are maintained by the State Controller's Office and the California State Lottery.

Lottery revenue allocated to school districts increased due to higher sales. This was the fourth year of increase after a significant decrease in FY 1996-97. Revenue for FY 2000-01 is projected to increase by 10.3% over 1999-2000 to \$848 million³ — about \$136 per K-12 average daily attendance (Table 7).

³ The lottery revenue information is obtained from the California Department of Education, based on State Lottery projections.

Table 7



Program Compliance

Overview

The State Controller's Office also reports on program compliance issues as part of its review of annual audit reports, overall certification process, and associated follow-up actions. In addition, the State Controller's Office conducts compliance audits.

Compliance Findings

School district auditors determine whether the districts and joint powers entities (JPEs) have complied with state and federal laws and regulations that may have a material effect on the financial position and operations of the organization or program(s) under audit. The JPEs are formed to provide a joint service to a group of districts and are governed by a board consisting of a representative from each member district. When a school district or JPE is not in compliance with applicable laws and regulations, the findings are communicated in the audit report.

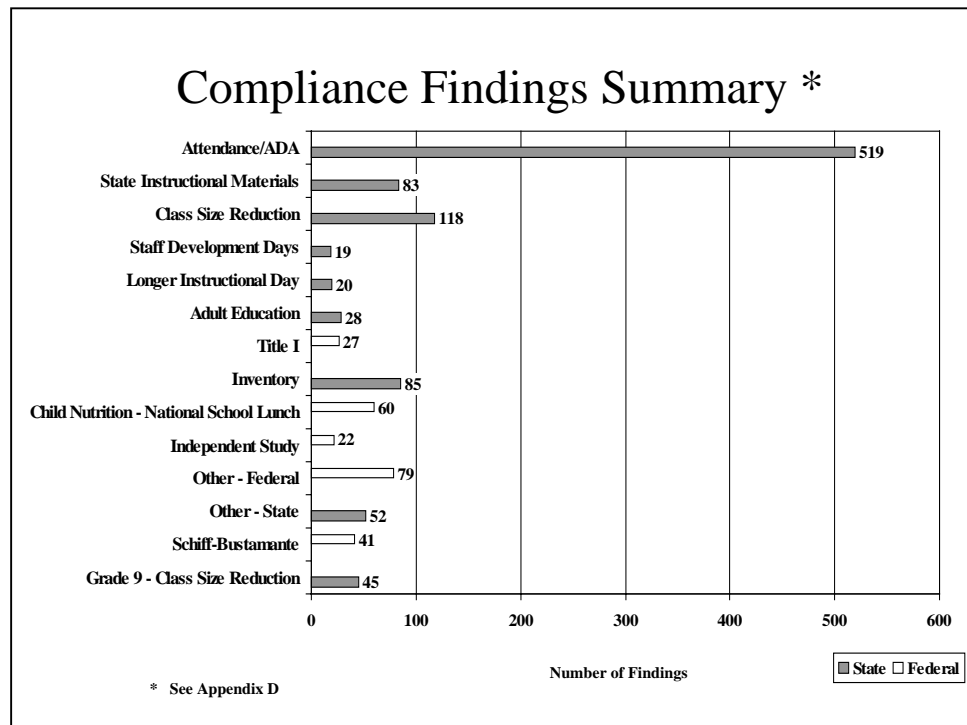
The number of compliance findings contained in FY 1999-2000 school district financial reports submitted by CPAs decreased from the prior year. There were 1,198 compliance findings in FY 1999-2000, a 17% decrease from 1,440 reported in FY 1998-99 (see Appendix D). The number of attendance accounting findings decreased by 206 (from 725 to 519, or 28.4%) from the prior year.

Some of the problems identified in the compliance findings may have a fiscal impact on district operations by causing a loss of state and federal funding. Of the 1,198 audit findings, 1,032 (86.1%) pertained to state programs and requirements, and 166 (13.9%) pertained to federal programs and requirements (see Table 8). Attendance-related findings accounted for 43% of compliance findings. The attendance findings were related to errors in:

- Overstating ADA
- Preparing independent study contracts
- Obtaining required approvals for attendance accounting systems
- Having attendance registers/scantrons signed by the teacher
- Reconciling attendance reports to supporting documentation
- Understating ADA
- Retaining documentation/records
- Completing attendance reports

The FY 1999-2000 school district audit reports also found that 13% of the 886 elementary school districts participating in the class-size reduction program did not fully comply with program reporting requirements. The audits identified 118 findings relating to the class-size reduction program. Most of the findings pertained to inaccuracies in reporting class-size totals and daily enrollments, while others stemmed from the failure of districts to document teacher training. The audits also disclosed 83 findings pertaining to the state instructional materials fund. Over 81.93% (68) of the findings pertained to public hearing notice requirements and expending more than 30% allowance on non-adopted materials.

Table 8



Reporting of Findings

Annual audit reports by CPAs are the primary source of information regarding a school district's financial stability and its compliance with state and federal program requirements. Noncompliance with program laws and regulations is not always included in the audit reports. Some of these problems were either reported to the school district in the independent auditor's management letter or were undetected by the independent auditor.

Build-Upon Audits

The Single Audit Act of 1984, as amended in 1996, requires agencies that perform compliance audits to build upon the school district audits performed by independent CPA firms to avoid duplication. As a fiscal oversight agency, the State Controller's Office pursues unreported issues through supplemental audits, commonly called build-upon audits, and through other surveys of school districts' business and accounting practices. As a general rule, State Controller's Office auditors review the working papers of single audits performed by independent CPAs prior to conducting a build-upon compliance audit or survey.

Build-upon audits disclosed additional deficiencies

In FY 2000-01, the State Controller's Office performed build-upon audits and fiscal surveys mainly in the areas of attendance accounting and compliance with state programs. Based upon the results of the State Controller's build-upon audits, additional program deficiencies were discovered that were not reported by the districts' independent auditors.

Principal audit findings

The State Controller's Office audits disclosed the principal audit findings listed below. The California Department of Education is responsible for following up on the findings to ensure that they are properly resolved.

Charter Schools

- Improperly reported ADA due to clerical errors and missing student apportionment records.
- Understated eligible pupils for the class size reduction program due to clerical errors on the Form J-7CSR.
- Underreported ADA due to clerical errors in determining the number of school days taught.
- Overreported ADA due to mathematical errors.
- Improperly reported ADA that was not supported by attendance records and appropriate documentation.
- Students' weekly lesson plans and work samples containing evidence of sectarian studies.
- Supervisorial oversight fees in excess of maximum amounts allowable by the *Education Code*.

Independent Study Program

- Underreported attendance due to inaccurate recording of attendance time allowed as compared to student's academic credit.
- Independent study agreements not containing the required elements.

Juvenile Court and Community Schools

- County office of education inappropriately classifying county community school pupils as eligible to generate the higher juvenile court school revenue limit.

Excused Absences

- School districts overreporting excused absence ADA due to:
 - Invalid excused absences;
 - Lack of documentation; and
 - Clerical errors in compiling attendance reports.

Quality Control

Overview

The State Controller, under *Education Code* Section 14504, reviews and certifies the annual independent audit reports submitted by each school district, county office of education, and joint powers entity (JPE) for compliance with audit guidelines set out in the State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies* (K-12 Audit Guide).

Audit Report Certifications

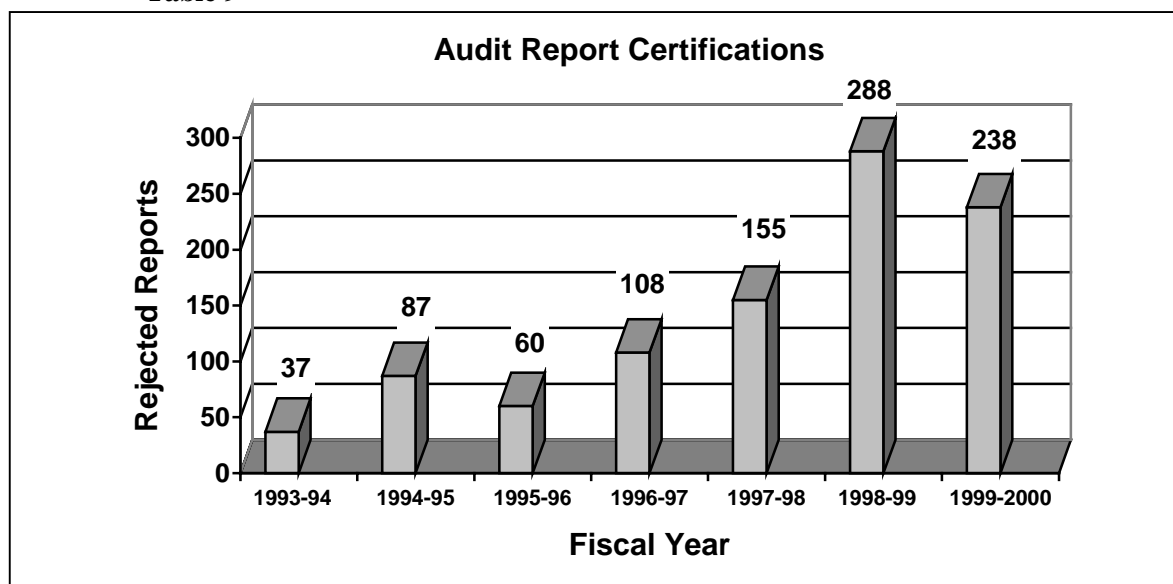
The State Controller's Office determines whether audit reports conform to reporting provisions of the K-12 Audit Guide and provides notification to each school district, county office of education, independent auditor, and the State Superintendent of Public Instruction regarding the acceptance or rejection of each report.

For FY 1999-2000, 77% of the audit reports were accepted; the remaining 23% were rejected upon initial review. The rejected audit reports were subsequently accepted after the independent auditors made requested corrections. Rejection of the auditor's report is accompanied by a penalty whereby the independent auditor does not receive the 10% service fee retained by the district until the audit report has been corrected and certified by the State Controller's Office. In addition, if an independent auditor has had a report rejected (and not subsequently corrected) for the same district for two consecutive years, the auditor may be referred to the State Board of Accountancy for professional review.

Decrease in rejected audit reports

The number of rejected reports decreased by 50 (from 288 to 238) over the prior year, a 17% decrease (Table 9). The rejections resulted mainly from errors in meeting state compliance requirements, coding of findings, and quantifying the fiscal impact of state compliance findings.

Table 9

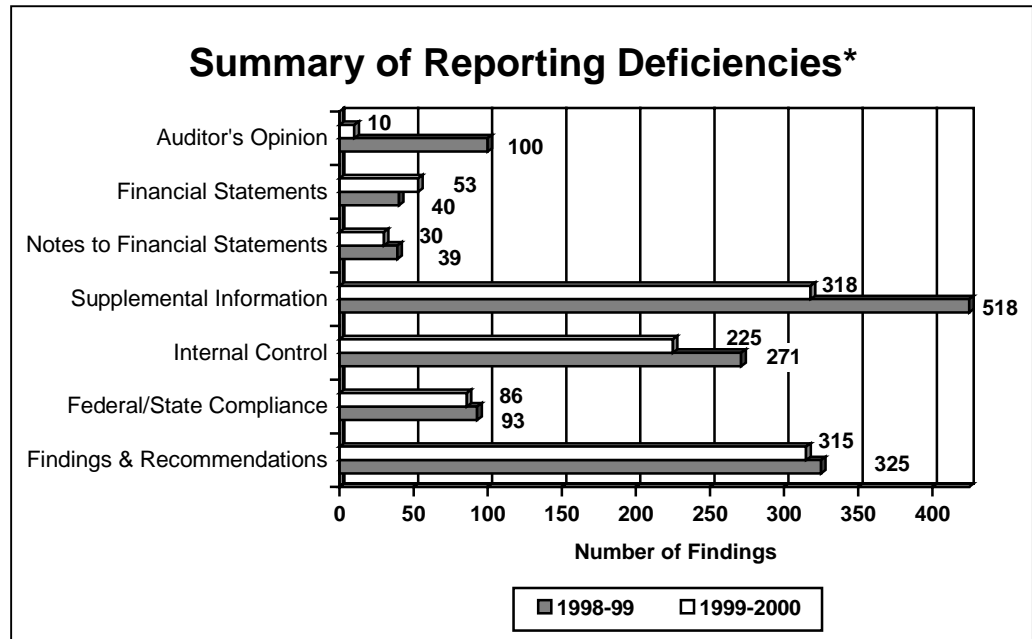


Reporting Deficiencies

Overall reporting deficiencies decreased significantly

Upon initial review, the State Controller's Office certified 807 (77%) of the 1,045 audit reports submitted by independent CPAs for FY 1999-2000. The certification of an audit report means that the State Controller's Office agrees that it fairly represents the financial status of the district and the audit work performed by the CPA.

Table 10



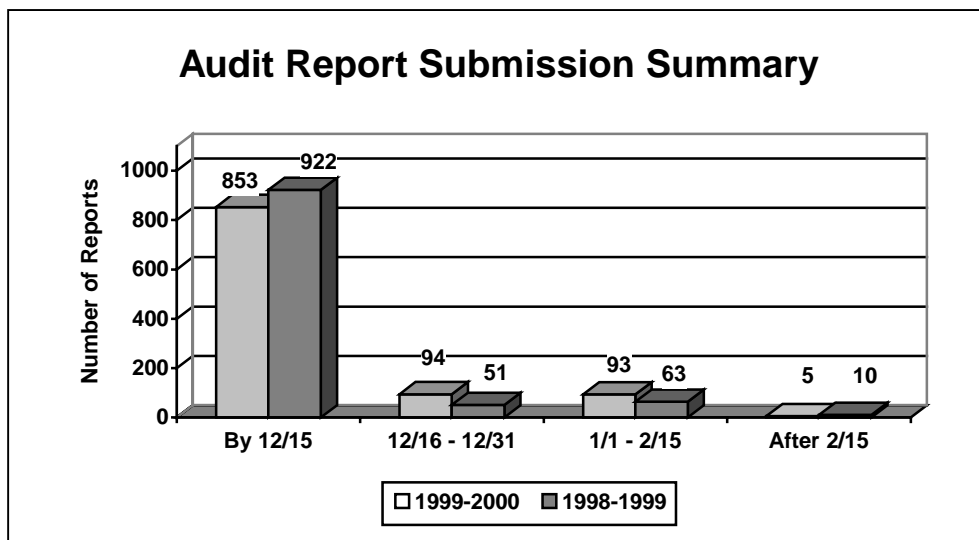
The number of reporting deficiencies in a variety of report areas decreased significantly. For FY 1999-2000, there were 1,037 reporting deficiencies, a decrease of 349 over the prior year (Table 10).

Timely Submissions

Overall decrease in number of annual reports submitted before the deadline

Audit reports for the preceding fiscal year must be filed with the State Controller's Office, the California Department of Education, and the county superintendent of schools by December 15. Filing deadline extensions may be granted, but only under extraordinary circumstances.

Table 11



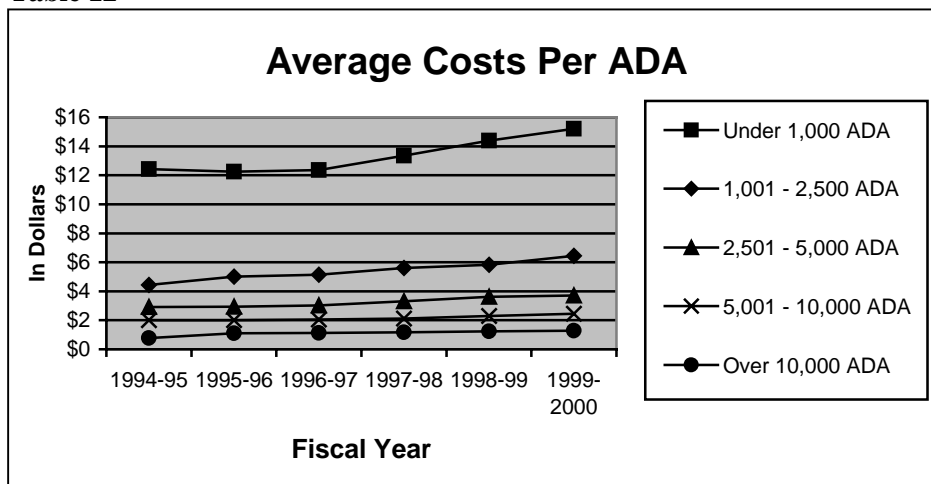
There was a decrease in the number of annual audit reports submitted before the deadline (Table 11). During FY 1999-2000, 69 fewer reports were received by the December 15 deadline. The majority of annual reports — 853 of 1,045, or 82% — were submitted by that date.

Average Audit Cost per ADA

Average audit costs increased slightly

The State Controller's Office maintains a database of information pertaining to audit contracts between local school districts and independent auditors. From that database, the total audit costs and cost per audit were determined, on a per unit of ADA basis, for school districts' annual audits. Audit costs for the FY 1999-2000 audits totaled \$13.96 million, an increase of \$910,000, or 6.9%, over total audit costs of \$13.05 million for FY 1998-99.

Table 12



The average audit cost per ADA increased slightly over the prior year. The biggest increase of 10.65% (\$.62) was for districts with 1,001 to 2,500 ADA.

Appendix A — Audit Report and Interim Report Disclosures of Impending Financial Problems

County School District	Full Disclosure in Auditor's Opinion	Full Disclosure in Financial Statement and Accompanying Notes	Average Daily Attendance	2000-01 Interim Report ¹		1999-2000 Filed Qualified or Negative Interim Report
				First	Second	
Alameda County:						
Emery Unified	Yes	Yes ²	872	N	N	Q
Amador County:						
Amador COE	No	No	204	P	Q ³	P
Amador County Unified	No	No	4,507	P	Q ³	P
Fresno County:						
Fresno Unified	No	No	75,657	Q	Q	P
Sanger Unified	No	No	7,478	Q	P	P
West Fresno Elementary	No	No	953	P	Q ⁴	P
Humboldt County:						
Eureka City Schools	No	No	6,475	P	N	P
Klamath-Trinity Joint Unified	No	No	1,085	Q	P	P
Southern Humboldt Joint Unified	No	No	1,257	Q	P	P
Lake County:						
Upper Lake Union High	No	No	590	Q	Q	P
Los Angeles County:						
Culver City Unified	No	No	5,882	Q ⁴	P	P
Hacienda La Puente Unified	No	No	33,454	Q ⁴	P	P
Temple City Unified	No	No	5,377	Q ⁴	P	P
Madera County:						
Coarsegold Union	No	No	934	Q	Q	P
Mariposa County Unified						
Mariposa County Unified	No	No	2,466	P	Q ³	P
Mendocino County:						
Mendocino Unified	No	No	827	P	Q	P
Monterey County:						
Monterey Peninsula Unified	No	No	13,753	Q ⁴	P	N
Napa County:						
Howell Mountain Elementary	Yes	Yes ²	52	N	N ⁵	N
Pope Valley Union	No	No	78	Q	P	P
Sacramento County:						
Natomas Unified	No	No	5,304	P	Q ⁴	P
San Benito County:						
Hollister Elementary	No	No	5,521	P	Q	P
San Joaquin County:						
Lammersville Elementary	No	No	306	Q	Q	Q
Santa Cruz County:						
Santa Cruz City	No	No	8,744	Q	Q	Q
Shasta County:						
Bella Vista Elementary	No	No	467	Q	P	P
Fall River Joint Unified	No	No	1,468	Q	Q	P
Happy Valley Union	No	No	677	Q	Q	P
Sierra County:						
Sierra-Plumas Joint Unified	No	No	2,172	P	Q ³	Q
Siskiyou County:						
Weed Union Elementary	No	No	421	P	Q ⁴	P
Solano County:						
Vallejo City Unified	No	Yes	19,520	Q	Q	P

Appendix A (continued)

County School District	Full Disclosure in Auditor's Opinion	Full Disclosure In Financial Statement and Accompanying Notes	Average Daily Attendance	2000-01 Interim Report ¹		1999-2000 Filed Qualified or Negative Interim Report
				First	Second	
Sonoma County:						
Cloverdale Unified	No	No	1,488	Q	Q	Q
Monte Rio Union Elementary	No	No	131	Q	P	P
Windsor Unified	No	Yes	3,722	Q	P	P
Tulare County:						
Pixley Union Elementary	No	No	807	Q	N	P
Woodlake Union Elementary	No	No	1,471	Q	P	P

¹ P = Positive Q = Qualified N = Negative

² Going concern finding.

³ County office of education changed certification from qualified to negative.

⁴ County office of education changed certification from positive to qualified.

⁵ Third interim report changed certification from negative to positive.

Appendix B — School Districts Filing Qualified or Negative Interim Reports

County School District	1 st /2 nd Certification ¹	Deficit Spending	Inadequate Reserves	Revenues Over- Estimated	Loan Repayment Pending	Analysis of Key Indicators For Financial Difficulties								
						Declining Enrollment	Enrollment Growth Projection	Long-Term Debt/Other Obligations	Payroll/ Benefit Problems	Staffing Reduction	Litigation Matters	Audit Adjustments/ Settlements	Fiscal Advisor	Utility Costs
Alameda County: Emery Unified	N/N	•	•										•	
Amador County: Amador COE	P/Q								•			•		•
Amador County Unified	P/Q								•			•		•
Fresno County: Fresno Unified	Q/Q		•						•					
Sanger Unified	Q/P		•						•					
West Fresno Elementary	P/Q	•							•					
Humboldt County: Eureka City Schools	P/N	•	•	•										
Klamath Trinity Joint Unified	Q/P	•				•								
Southern Humboldt Joint Unified	Q/P	•				•								
Lake County: Upper Lake Union High	Q/Q		•						•					
Los Angeles County: Culver City Unified	Q/P		•						•					
Hacienda La Puente Unified	Q/P	•							•					
Temple City Unified	Q/P		•									•		
Madera County: Coarsegold Union	Q/Q		•							•				•
Mariposa County: Mariposa County Unified	P/Q		•						•					•
Mendocino County: Mendocino Unified	P/Q		•			•								
Monterey County: Monterey Peninsula Unified	Q/P				•				•				•	
Napa County: Howell Mountain Elementary	N/N	•	•			•					•		•	
Pope Valley Union	Q/P	•				•								
Sacramento County: Natomas Unified	P/Q	•	•				•							

Appendix B (continued)

County	1 st /2 nd Certification ¹	Deficit Spending	Inadequate Reserves	Revenues Over- estimated	Loan Repayment Pending	Analysis of Key Indicators For Financial Difficulties								
						Declining Enrollment	Enrollment Growth Projection	Long-Term Debt/Other Obligations	Payroll/ Benefit Problems	Staffing Reduction	Litigation Matters	Audit Adjustments/ Settlements	Fiscal Advisor	Utility Costs
School District														
San Benito County: Hollister Elementary	P/Q	●							●					
San Joaquin County: Lammersville Elementary	Q/Q	●				●			●					●
Santa Cruz County: Santa Cruz City	Q/Q	●	●			●								●
Shasta County: Bella Vista Elementary	Q/P	●	●			●								
Fall River Joint Unified	Q/Q	●	●			●								
Happy Valley Union	Q/Q	●				●			●					
Sierra County: Sierra-Plumas Joint Unified	P/Q	●							●					
Siskiyou County: Weed Union Elementary	P/Q	●				●			●					
Solano County: Vallejo City Unified	Q/Q		●			●	●	●	●					●
Sonoma County: Cloverdale Unified	Q/Q	●				●			●					
Monte Rio Elementary	Q/P	●												
Windsor Unified	Q/P	●						●	●					
Tulare County: Pixley Union Elementary	Q/N	●	●					●						
Woodlake Union Elementary	Q/P				●									

¹ P = Positive Q = Qualified N = Negative

Appendix C — Summary of Audit Report Problems

Description	Number of Findings	
	1998-99	1999-2000
<u>Auditor's Opinion</u>		
The auditor's qualified opinion due to departure from generally accepted accounting principles (GAAP) did not provide substantive reason for departure and/or did not disclose possible effects on financial statements.	72	5
The auditor's qualified opinion due to scope limitation did not include an explanation paragraph and/or did not disclose possible effects on financial statements.	12	0
The auditor's opinion did not state that the financial statements conform with GAAP.	1	0
The auditor's report did not state that the audit was conducted in accordance with generally accepted auditing standards (GAAS) and government auditing standards.	6	2
Reference to a separate report on compliance and on internal control over financial reporting was not included.	5	1
Auditor's reports did not include a manual or printed signature of the Auditor's Firm and the date of the report.	4	2
	<u>100</u>	<u>10</u>
<u>Financial Statements</u>		
The Combined Operating Statement was not properly presented.	6	0
The Combined Balance Sheet was not properly presented.	9	2
The fund balance was not properly reserved for material nonexpendable assets.	8	11
The combined budget and actual statement was not properly presented.	4	1
The financial statements were not properly presented for the proprietary and nonexpendable trust funds.	1	0
Long-term debt was improperly reported and presented.	7	10
Interfund receivables did not equal interfund payables.	5	3
All component units and/or joint ventures (JPEs) related to the entity were not identified.	0	3
Reserves were not appropriate, and their nature and purpose were not clear.	0	23
	<u>40</u>	<u>53</u>

Appendix C (continued)

Description	Number of Findings	
	1998-99	1999-2000
<u>Notes to the Financial Statements</u>		
All activities, organizations, or functions of government related to the entity were not identified.	1	0
The notes did not adequately disclose all material items necessary for a fair presentation of the financial statements (long-term debt, issuance of certificates of participation, pension obligations, prior period adjustments, etc.).	1	0
The notes did not adequately describe the criteria used in determining the scope of the audit.	1	0
The notes did not adequately disclose pension obligations.	8	1
The notes did not include full disclosure with respect to long-term debt.	19	15
The nature and purpose of reported reserves was not sufficiently clear.	9	0
The notes did not adequately disclose prior period restatements or adjustments.	0	10
The notes did not adequately describe the criteria used in determining whether other entities should be considered component units of the reporting entity.	0	4
	<u>39</u>	<u>30</u>
<u>Supplemental Information Section</u>		
The Schedule of Expenditures of Federal Awards did not include the required federal catalog numbers; and total expenditures for each federal program were not listed; or the schedule did not include all the required programs. (For FY 1999-2000, the SCO reviewed additional attributes identifying the following:	457	305
<ul style="list-style-type: none"> Individual federal programs by federal agency and, for a cluster of programs, individual programs within the cluster. For federal awards received as a subrecipient, the name of the pass-through entity and the identifying number assigned by the pass-through entity). 		
This accounts for the significant increase in the number of deficiencies.		
The notes did not disclose the district's participation in the Early Retirement Incentive program.	26	2
The auditor's report did not include an opinion on supplementary information.	4	0
The reconciliation of annual financial and budget report with audited financial statements was not included.	4	4
Auditor's report did not include required Year 2000 disclosure.	23	0
The auditor's report did not identify the supplementary information, including the Schedule of Expenditures of Federal Awards.	3	0
The Schedule of Financial Trends and Analysis was omitted or contained deficiencies.	1	2
The Schedule of Expenditures of Federal Awards was not included.	0	1
The Schedule of Instructional Time was not included or schedule was deficient.	0	4
	<u>518</u>	<u>318</u>

Appendix C (continued)

Description	Number of Findings	
	1998-99	1999-2000
<u>Internal Control Section</u>		
The Report on Compliance and on Internal Control Over Financial Reporting did not reference the financial statements audited.	139	156
The Report on Compliance and on Internal Control Over Financial Reporting was deficient.	126	69
Auditor's Report on Compliance and Internal Control in accordance with Government Auditing Standards was not included.	2	0
The Report on Compliance and on Internal Control Over Financial Reporting did not include a statement regarding test results.	4	0
	<u>271</u>	<u>225</u>
<u>Federal and State Compliance Section</u>		
The auditor's report on state compliance was deficient.	75	75
The Report on Compliance With Requirements Applicable to Each Major Program and Internal Control was deficient.	17	3
The Report on Compliance With Requirements Applicable to Each Major Program and Internal Control was not included.	1	3
The Report on Internal Control over Compliance was deficient.	0	5
	<u>93</u>	<u>86</u>
<u>Findings and Recommendations Section</u>		
There was no report on the auditee's corrective action plan to eliminate noncompliance included in the report.	25	12
The audit findings were not coded with the correct five-digit number.	25	17
Noncompliance was reported, but sufficient data was not presented.	55	46
Schedule of Instructional Time indicates noncompliance with the requirements, but the finding was not included in the report.	7	5
Fiscal impact resulting from noncompliance was not quantified.	191	101
Available reserves are below the minimum required, and management's plans and/or going concern note was not included.	19	11
Summary of auditor's results was not included.	1	1
Major federal programs were not identified.	1	2
Summary schedule of prior audit findings was not included	1	4
Sufficient information for judging the frequency and consequences of noncompliance was not included.	0	116
	<u>325</u>	<u>315</u>
Total number of findings	<u>1,386</u>	<u>1,037</u>

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Appendix D — Summary of Audit Report Compliance Findings

<u>Program</u>	<u>Description of Problem</u>	<u>Number of Findings</u>
STATE		
Adult Education	Attendance accounting deficiencies	10
	Attendance report does not reconcile	10
	Lack of documentation/records	3
	Other findings	5
Child Development	Other findings	1
	Reported expenditures inaccurate	2
	Lack of documentation/records	1
Special Education	Other findings	1
Longer Instructional Day	Instructional time requirements not met	13
	Other findings	6
	Lack of documentation/records	1
Continuation Education	Other findings	5
Independent Study	Other findings	22
Summer School	Attendance accounting deficiencies	9
State Instructional Materials Fund	Expenditures not allowable	2
	Public hearing on instructional materials held after June 30	42
	Ten-day notice of public hearing not posted at three public locations in district	16
	More than 30% of allowance and interest expended on non-adopted materials	10
	Other findings	9
	Adopted/nonadopted requirements not met.	4
Attendance Requirements	Excused absences — problems with verification procedures/documentation	10
	Independent Study contract was not prepared/was deficient	59
	Attendance accounting system not approved by CDE	57
	Attendance registers/scantrons not signed by teacher	36
	Attendance report does not reconcile to supporting documentation	47
	Attendance report inaccurate/incomplete	24
	Lack of documentation/records	19
	ADA overstated by 0-5 ADA	29
	ADA overstated by 5-10 ADA	8
	ADA overstated by 10-20 ADA	7
	ADA overstated by over 20 ADA	4
	Kindergarten retention forms not maintained and/or not in compliance with state requirements	44
	Independent Study attendance overstated	21
	Absences claimed for apportionment	18
	Independent Study work samples not maintained	20

Appendix D (continued)

<u>Program</u>	<u>Description of Problem</u>	<u>Number of Findings</u>
STATE (continued)		
Attendance Requirements (continued)	Incorrect reporting of attendance for staff development days	13
	Attendance accounting deficiencies for continuation education	23
	Incorrect application of positive/negative attendance accounting	3
	ADA understated by 0-5 ADA	21
	ADA understated by 5-10 ADA	5
	ADA understated by 11-20 ADA	3
	ADA understated by over 20 ADA	3
	Student not eligible for admittance to kindergarten	14
	Enrollment not reconciled to monthly attendance reports	10
	Other findings	21
Inventory of Equipment	Inventory of equipment not maintained	84
	Other findings	1
Gann Limit Calculation	Appropriation limit calculation deficiency	3
	Other findings	2
Class-Size Reduction	Number of classes and pupils reported on Form J-7 CSR understated	40
	Number of classes and pupils reported on Form J-7 CSR overstated	58
	Lack of documentation/records	3
	Teacher training not completed/not documented	7
	Other findings	10
Grade 9 Class Size Reduction	Lack of documentation/records	6
	Number of classes and pupils reported on Form J-9 MH-A understated	11
	Number of classes and pupils reported on Form J-9 MH-A overstated	19
	Other findings	9
Schiff-Bustamante	Expenditures not allowable	41
Digital High School	Local match requirement not met	2
	Other findings	5
Deferred Maintenance	Expenditures not allowable	8
	Other findings	1
Staff Development Days	Staff Development held on minimum days	1
	Lack of documentation/records	6
	Other findings	9
	Financial report/claim not filed/not timely	3
Other State Programs	Financial report inaccurate/not complete/multi-funded positions not supported	1
	Lack of documentation/records	1
	Other findings	4
Regional Occupational Center/Program	Attendance accounting deficiencies	2
	Attendance report does not reconcile	3
J390 Report	Financial report inaccurate	<u>1</u>
Subtotal number of state findings		<u>1,032</u>

Appendix D (continued)

<u>Program</u>	<u>Description of Problem</u>	<u>Number of Findings</u>
FEDERAL		
Job Training	Allowable costs/cost principles	2
Partnership Act	Activities allowed or unallowed	1
Special Education	Special tests and provisions	4
	Allowable costs/cost principles	2
Head Start	Cash management	1
	Procurement/suspension/debarment	1
Migrant Education	Expenditures overstated	1
Federal Programs	Noncompliance with requirements for allowable costs/cost principles	3
	Noncompliance with requirements for equipment and real property management	8
	Noncompliance with requirements for cash management	1
	Noncompliance with requirements for period of availability of federal funds	1
	Multifunded position not supported by time distribution records	25
	Noncompliance with requirements for procurement/suspension/debarment	3
School Breakfast Program	Expenditures understated	1
	Financial report inaccurate	2
	Expenditures do not reconcile to general ledger	1
	Eligibility of participants	5
	Reporting requirements	1
	Lack of documentation/records	1
	Other findings	1
FEMA	Expenditures do not reconcile to general ledger	1
	Procurement/suspension/debarment	1
Adult Education	Financial report inaccurate/not completed	1
Eisenhower Math & Science	Period of availability of federal funds	1
National School Lunch	Eligibility of participants	22
	Lack of documentation/records	3
	Financial report inaccurate	6
	Expenditures overstated	2
	Expenditures understated	3
	Types of services allowed/unallowed	2
	Reported expenditures inaccurate	1
	Reporting requirements	6
	Special tests and provisions	3
	Allowable costs/cost principles	2
	Reported revenue erroneous	1
	Financial report/claim not filed/filed after deadline	1
	Reported expenditures do not reconcile to general ledger	3
	Equipment and real property management	1
	Procurement/suspension/debarment	1
	Other findings	3

Appendix D (continued)

<u>Program</u>	<u>Description of Problem</u>	<u>Number of Findings</u>
FEDERAL (continued)		
Title I—	Equipment and real property management	2
Grants to LEAs	Period of availability of federal funds	6
	Expenditures overstated	1
	Expenditures understated	1
	Activities allowed or unallowed	1
	Eligibility of participants	2
	Special tests and provisions	1
	Allowable costs/cost principles	11
	Lack of documentation/records	1
	Other findings	1
Other Federal	Eligibility	2
	Financial report inaccurate	1
	Reporting requirements	1
	Procurement/suspension/debarment	1
	Allowable costs/cost principles	2
	Subrecipient monitoring	2
	Other findings	<u>1</u>
Subtotal, total number of federal findings		<u>166</u>
Total number of findings		<u>1,198</u>

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